

REBUTTAL TESTIMONY
OF
MARY H. EVERSON
ACCOUNTING DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

AMERITECH ILLINOIS

DOCKET NO. 98-0252/0335 (CONSOL.)

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2 **Witness Identification**

3 **Q. Please state your name and business address.**

4 A. My name is Mary H. Everson. My business address is 527 East Capitol Avenue,
5 Springfield, Illinois, 62701.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am an Accountant in the Accounting Department of the Financial Analysis Division
8 of the Illinois Commerce Commission.

9 **Q. Are you the same Mary H. Everson who previously filed testimony in this**
10 **docket?**

11 A. Yes, I am.

12 **Purpose of Testimony**

13 **Q. What is the purpose of this testimony?**

14 A. The purpose of my testimony is to respond to the issues raised by Ameritech Illinois
15 and API witnesses on behalf of Ameritech Illinois. Specifically, I will address
16 adjustments to directory revenue, incentive compensation, social and service club
17 dues, advertising expense, and external relations.

18 **Q. Are you sponsoring any schedules as part of Staff Exhibit 21.0?**

19 A. Yes, I am. As part of this testimony I am presenting the following schedules:

20	Schedule 21.01	Directory Revenue
21	Schedule 21.02	Incentive Compensation Expense
22	Schedule 21.03	Social and Service Club Dues
23	Schedule 21.04	External Relations

24 **Directory Revenue**

25 **Q. GCI witness Ralph C. Smith proposes an adjustment to directory revenues**
26 **similar to the one you proposed in direct testimony. Are you familiar with**
27 **the adjustment proposed by Mr. Smith?**

28 A. Yes, I am. The adjustments made by Mr. Smith and myself are similar and are
29 proposed with the same intent, only differing in amount.

30 **Q. Do you agree with Mr. Smith's adjustment amount?**

31 A. Yes, I do. Mr. Smith updated the directory revenue adjustment amount by taking into
32 consideration changes which have occurred since the 92-0448 docket. Mr. Smith
33 based his updated amount on IBT Directory Revenue shortfall per access line, the
34 method approved by the Commission in Docket No. 92-0448. I believe the
35 methodology used by Mr. Smith is sound and that his adjustment provides a more
36 up to date amount than the static adjustment made in my direct testimony. Therefore,
37 I am withdrawing my adjustment in favor of Mr. Smith's imputed directory revenue
38 adjustment. I have included Mr. Smith's amount on my Schedule 21.01.

39 **Incentive Compensation**

40 **Q. Mr. Dominak indicates that your argument regarding incentive**
41 **compensation does not apply in the case of a price-cap regulated company.**
42 **Is it appropriate for Mr. Dominak to judge this adjustment using criteria for**
43 **price cap regulation?**

44 A. No. Mr. Dominak has overlooked the fact that my testimony and adjustments were
45 prepared for the purpose of supplying the Commission with a revenue requirement

46 prepared under a rate of return methodology. These adjustments were not intended
47 to apply to price cap regulation. To presume that these adjustments are presented
48 for any other type of regulation is incorrect. Therefore any comments made by
49 Ameritech witnesses regarding the applicability for other types of regulation are not
50 necessary and only serve to confuse the issue.

51 **Q. Ameritech witness Dominak takes exception to your adjustment to remove**
52 **the cost of incentive compensation from the Company's revenue**
53 **requirement. His testimony on page 11 indicates that the Company's**
54 **incentive compensation for 1999 is a normal and prudent amount that is**
55 **necessary to provide service. Do you agree?**

56 **A.** I do agree with Mr. Dominak that today many companies use incentive
57 compensation and bonus plans for their employees. However, I do not agree that
58 simply because a company uses an incentive plan that it is automatically
59 appropriate to include the amounts in the Company's revenue requirement for
60 purposes of establishing rates. Incentive compensation plans that are based on
61 financial incentives contribute to increased return on assets and revenue growth.
62 When the goal of increased revenue is reached, increased amounts are paid to
63 employees in the form of incentive compensation. This incentive compensation
64 then increases the Company's operating expense, which contributes to higher rates

for customers in the Company's next rate proceeding. Therefore, the customers are paying for the Company to increase its revenue, which benefits its shareholders.

Q. On page 12 of Ameritech witness Dominak's testimony, he states that incentive compensation contributes to the attainment of financial targets and therefore benefits customers in that base rates would be lower than they otherwise would be. Is this correct?

A. No. By paying incentive compensation to their employees, the Company has incurred a higher operating expense. Including this higher operating expense in the revenue requirement for ratemaking, will force the ratepayers to pay higher rates after the incentive compensation amounts are included in the Company's revenue requirement.

Q. Ameritech witness Dominak states that the Commission has rejected similar Staff adjustments in past cases because incentive compensation provides the incentive to "contain costs and maximize efficiencies, thereby benefiting customers".

A. This is true to the extent that the cost containment and efficiencies are greater than the payments made for incentive compensation, and that the benefits of the cost containments and efficiencies continue beyond the period addressed by the next

83 rate proceeding. If the incentive compensation is allowed as an expense in a
84 revenue requirement, then the rates customers pay include provision for that
85 expense. The provision for that expense contained in those rates continues until the
86 next rate proceeding. The customers continue to pay for that incentive
87 compensation until new rates are established. If the savings and efficiencies are
88 short lived and their benefit cannot be sustained until the next rate proceeding, the
89 ratepayers still must continue to pay for the incentive compensation built into their
90 rates.

91 **Q. The Company has claimed that the amounts used in your adjustment to**
92 **incentive compensation are total Company amounts and should be reduced**
93 **to intrastate operating numbers. Do you have a comment.**

94 **A.** While I understood the numbers to intrastate amount when I used them, I have
95 requested additional information from the Company. The Company provided this
96 information in response to data request MHE-044. I have used those amounts in my
97 Schedule 21.02 , Incentive Compensation Expense.

98 **Social and Service Club Dues**

99 **Q. Ameritech witness Dominak disagrees with your adjustment to remove**
100 **social and service club dues from the Company's revenue requirement.**
101 **Has this caused you to change your adjustment?**

102 **A.** No. It has not. Membership in these organizations is not necessary to provide utility
103 service. As I stated in my direct testimony, the Commission has previously
104 recognized this fact and has stated that the shareholders, rather than the ratepayers,
105 should bear the cost of participation in these organizations. The Commission, in
106 Orders for Commonwealth Edison, (Docket No. 90-0169, dated January 6, 1993),
107 Commonwealth Edison, (Docket No. 94-0065, dated January 9, 1995) and in
108 Central Illinois Public Service Company, (Docket No. 99-0121, dated August 25,
109 1999), have affirmed this position by removing the cost of these types of dues.
110 Dues paid by Ameritech to these organizations do not benefit the ratepayers and
111 the Commission's prior rulings support removing the cost of these dues.

112 **Q. In his rebuttal testimony, Timothy Dominak stated on page 15 that you did**
113 **not eliminate dues paid to the Rockford Area Chamber of Commerce. Is he**
114 **correct in this assertion?**

115 A. Yes, he is. It was an unintentional oversight. I have included the amount in Staff
116 Exhibit 21.0, Schedule 21.03. As I stated in my direct testimony and in the
117 preceding section, participation in these groups is a goodwill and promotional
118 practice that is not necessary to provide utility service (Staff Exhibit 7.0, page 6, line
119 116).

120 **Q. Ameritech witness Dominak also questions your adjustment to remove the**
121 **cost of dues paid to the Illinois Telecommunications Association on the**
122 **basis that it is an organization devoted to education, and a forum for**
123 **identification and examination of issues in the telecommunications industry.**
124 **Does this change your opinion?**

125 A. No, it does not. The Illinois Telecommunications Association is also an organization
126 that attempts to represent its members and assist them before governmental
127 bodies. According to the Illinois Telecommunication Association's web page,
128 membership provides "[o]pportunities to participate with other companies to assist
129 in the creation and revision of rules and laws impacting the industry." This
130 description indicates that the association also performs a lobbying functions for its
131 members. This is an additional reason to eliminate its dues from Ameritech's
132 revenue requirement, since lobbying provides the ratepayers with no discernable
133 benefit.

134 **Advertising Expense**

135 **Q. Do you have any changes to your adjustment for advertising expense?**

136 A. Yes. Subsequent to filing my direct testimony, the Company provided more detailed
137 information pertaining to amounts expensed for advertising. After reviewing this
138 information, I am withdrawing my adjustment, with the exception of the amounts
139 expensed for sports team sponsorship (\$96,000) identified in the direct testimony of
140 Ralph C. Smith, GCI Exhibit 6.0, page 36. The Company included GCI's \$96,000
141 adjustment on its rebuttal schedule, Ameritech Illinois Ex. 7.1, Schedule 1.

142 **External Relations Expense**

143 **Q. The Company has asserted that the amounts included in account 6722,**
144 **External Relations are reasonable and prudent business expenses. Do you**
145 **agree?**

146 A. While the Company indicates that these expenses are reasonable and prudent
147 expenses, the fact remains that included in account 6722 are amounts spent for
148 corporate image building, and review of pending legislation. The Company does
149 not dispute this. However the Company has not provided information to document
150 other types of expenses included in this account, which might be recoverable

151 through rates. Mr. Dominak states that “only \$7.610 million represent non-product
152 “institutional” or “goodwill” advertising costs.” (Ameritech Illinois Ex. 7.1, page 24)
153 However, he offers no evidence to support that amount. Information regarding the
154 amounts referred to in Mr. Dominak’s rebuttal testimony was requested in data
155 requests MHE-045 and MHE-046. The Company, in its response to MHE-045,
156 stated “Page 24 of the rebuttal testimony of Mr. Dominak provides a description of
157 the types of activities from the FCC Part 32 Uniform System of Accounts that are
158 properly included in account 6722, External Relations. Ameritech Illinois does not
159 maintain an accounting record of each descriptive activity”. However, Mr.
160 Dominak’s testimony does contain an amount (\$7.610 million) that he states is the
161 amount related to non-product “institutional” or “goodwill” advertising costs, which is
162 one of the “descriptive activities” that was requested in MHE-045 and MHE-046.
163 Staff finds this answer to be contradictory in that the rebuttal testimony specifies an
164 amount associated with one of those “descriptive activities”. Since the \$7.610
165 million from account 6722 referenced in Mr. Dominak’s rebuttal (Ameritech Illinois
166 Ex. 7.1, page 24) can be isolated, it would stand to reason that the other
167 “descriptive activities” could also be isolated and provided to Staff. Therefore, I am
168 continuing to propose an adjustment for the entire amount of account 6722.

169 **Q. The Company witness also indicated that \$52,000 of the amounts included**
170 **in account 6722 were related to Chamber of Commerce dues that were**
171 **already included in another adjustment. Do you agree?**

172 A. I requested information in data request MHE-047 to document that duplication. The
173 Company provided a response to that data request, stating that the \$52,000 amount
174 in Mr. Dominak's testimony was in error. The response indicated that \$26,000 of
175 the \$52,000 were 1998 amounts. Therefore, only \$26,000 had been removed in
176 two of my adjustments in direct. I have reflected the \$26,000 difference in my
177 Schedule 21.04.

178 **Conclusion**

179 **Q. Does this conclude your rebuttal testimony?**

180 A. Yes.